

Latin America & The Caribbean

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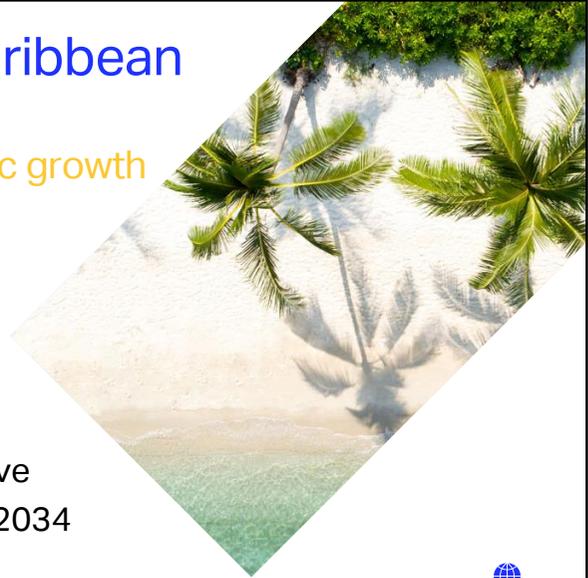
Ladies and gentlemen, good morning.

It is a pleasure to be with you here in Geneva to provide you with a special briefing on the air transport industry in Latin America and the Caribbean.

Latin America & the Caribbean Overview

Air transport is vital to economic growth

- Generates \$156 billion in GDP
- Supports 7.2 million jobs
- Connects the region with 160 global cities
- 2.6 million flights per year
- Regional economic outlook positive
- Passenger volumes to double by 2034



Air transport is vital to Latin America and the Caribbean and is a significant enabler of regional economic growth, generating \$156 billion in GDP and supporting 7.2 million jobs.

The power of aviation connects the region with 160 cities around the world on 2.6 million flights per year, fostering business growth, people-to-people ties and personal journeys of discovery.

You will receive a detailed briefing on the 2019 economic outlook for the industry including Latin America, so I will not go into details here except to say that the outlook is improving.

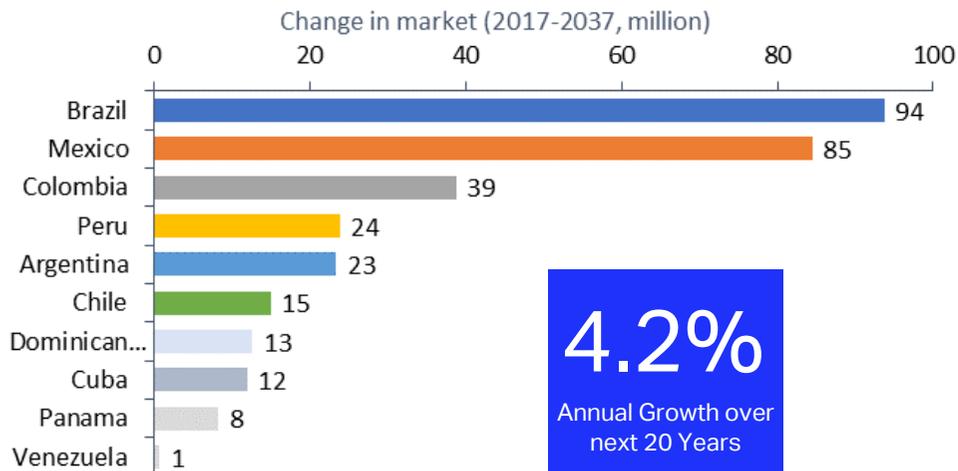
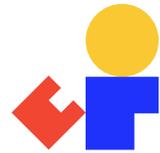
To allow aviation to be an engine of economic growth and cultural development, we urge governments in Latin America and the Caribbean to be smart about the regulation of the air transport industry and ensure the right infrastructure is in place to maximize the many benefits the industry generates.

With passenger growth in Latin America expected to double by 2034, the air transport industry's contribution to regional GDP could jump from \$140 billion to \$322 billion.

But this will only happen if the industry is able to grow unhindered and the following roadblocks are addressed effectively.

Total air passenger markets

Passenger journeys to, from and within each country



The industry is changing—dramatically. And Latin America is home to some very successful airlines.

Copa, LATAM and Avianca are leaders in building trans-national brands to meet evolving consumer demands.

Just a few weeks ago, it was announced that Avianca, COPA and United Airlines have reached an accord on a joint venture (JBA) that will have them cooperate on flights between Latin America and the USA.

The partnership will include flights between the US and 19 countries in Central/South America.

These three airlines join LATAM, Aeromexico, American and Delta to the growing JBAs between the US and Latin America. LATAM Airlines Group also has JBAs with Iberia on Europe to several Latin American markets.

COPA has achieved amazing connectivity through Panama and Aeromexico is deepening its partnership with Delta to better serve its most important

international market. And the low cost sector—after pioneers like GOL and Azul—is expanding rapidly with many new entrants.

Consumers are benefitting. The region's travelers are taking advantage of a 64% fall in global ticket prices compared to 1990. And the number of travel options has increased exponentially—with new routes, and new products and services.

The LatAm industry of 2018 bears little resemblance to what it was at the turn of the century.

In the last decade alone the number of passengers carried by the region's airlines has more than doubled.

And looking ahead, over the next 20 years we expect 4.2% average annual growth so that over 750 million journeys are expected to touch the region by 2036.

While this is great news, it is not guaranteed.

We need to focus on the following key three areas to ensure this growth can take place:

- Effective infrastructure to accommodate growth
- Reasonable costs and taxes that don't kill growth, and
- A modern regulatory framework that supports growth.

Throughout this growth, safety remains our industry's highest priority and the region has improved vastly over the past ten years.

Latin America recorded zero fatal accidents in 2017. However, the region lags the overall industry performance in terms of accident rates.

- And we took a step back this year with the tragedy in Cuba and a near-tragedy in Mexico. There definitely is more work to do.
- And experience shows that we are most successful when we embrace global standards and best practices.

The IATA Operational Safety Audit (IOSA) is the gold standard—and a

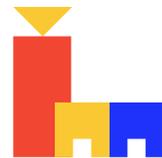
requirement for membership in both ALTA and IATA.

This is producing results. Between 2013 and 2017, IOSA airlines in Latin American had an all-accident rate that was more than four times better than the rate for airlines not on the IOSA registry.

For carriers not eligible for the IOSA audit, IATA and ALTA reached a pioneering agreement to promote the IATA Standard Safety Assessment (ISSA). This sets a global standard benchmark for airlines that operate aircraft which have a lower maximum take-off weight than the threshold for IOSA; or for operators whose business models do not allow conformity with IOSA's standards. Already more than six airlines are committed to undergo ISSA and others are in the pipeline.

Infrastructure

Airport and Airspace Improvements Needed



- Passenger growth expected to double by 2034.
- Roadblocks have to be addressed:
 - Impact of cancellation of new international airport in Mexico City (NAIM) to be seen. Cancellation costs estimated at USD5 billion.
 - Building capacity and improving processes at Bogota’s El Dorado Airport.
 - Extensive infrastructure needs across Argentina airports.
 - Airspace improvements to support new terminal in Panama
 - Construction of new terminal and second runway moving forward at Lima International Airport (LIM).



To allow aviation to be an engine of economic growth and cultural development, we urge governments in Latin America to ensure the right infrastructure is in place to maximize the many benefits the industry generates.

Lower fares, rising incomes and demographic growth are fueling significant passenger growth in Latin America. However, many of the region’s key airports are unable to absorb it.

One of the biggest challenges for our industry is the cancellation of the new international airport in Mexico City.

The public referendum held at the end of October resulted in the decision to cancel the New Mexico City Airport (NAIM) project already being built.

Just to cancel the project will cost over 100 billion pesos (~US \$5 billion) according to estimates.

Various national and international organizations have expressed their disappointment with the decision to cancel the project and raised concerns about the future of México's economy and business environment.

In parallel, the Obrador Administration has announced the construction of the "Santa Lucia-Toluca-AICM Airport System", which is estimated to be completed in 3 years.

The immediate steps include to start the works to reactivate Toluca Airport and finalize the necessary studies for the construction of the 2 new runways at the military base at Santa Lucia.

IATA will study this new proposal once more information is available in terms of airspace efficiency and operational safety.

In Colombia, building capacity and improving processes at Bogota's El Dorado Airport should be a priority.

El Dorado handles around 69% of the country's traffic and is already congested. Investment in existing infrastructure can raise capacity to 40 million passengers annually over the next few years.

Adding a third runway and a new passenger terminal could enable annual capacity to reach 70 million. Colombia also needs to continue moving forward with airspace redesign.

It is a good time for the Government of President Duque to ensure that General Aviation and the military are provided adequate infrastructure in another airport.

The recent airspace redesign around BOG made it possible to achieve 90 or more operations per hour.

Additional capacity and efficiency gains can be achieved by a redesign of the rest of Colombian airspace including further easing of restrictions on use of the military-controlled Palanquero airspace. Opening this airspace up to commercial operations could generate additional savings of 12 to 41 nautical miles, equivalent to a daily saving of 15,000 kg in fuel and 46,000 kg in CO₂.

Argentina continues to improve its aviation environment and we are pleased with Minister of Transport Dietrich's recent policy announcements on continued deregulation of the ground handling market and the extensive infrastructure plans at Aeroparque (AEP), Ezeiza and domestic airports across Argentina.

The infrastructure constraints will become even more evident as new airlines are entering the Argentine market and the government needs to continue working closely together with the industry to ensure the right investments are made.

In Panama, a new terminal at Tocumen International Airport (PTY) will open in 2019.

The next requirement is to move forward with urgently-needed airspace improvements to accommodate the increased terminal capacity and eliminate delays and inefficiencies.

In Peru, Lima Airport Partners (LAP) signed a formal agreement with the Peruvian Government whereby LAP received 100% of the land required to start construction of the new terminal and second runway at Lima International Airport.

Unrealized Potential

By not addressing these urgent infrastructure needs of the region, Latin America will leave \$42 billion of unrealized economic benefits on the table by 2034.

**\$42
Billion**
Of Unrealized
Economic Benefits

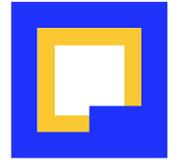


**By
2034**

Overall, by not addressing these urgent infrastructure needs of the region, Latin America will leave \$42 billion of unrealized economic benefits on the table by 2034.

Competitiveness

High charges and fees across region



- Latin America & Caribbean expensive place to do business
- Aviation is often seen as an easy cash generator for governments.
- Many examples of excessive taxation across the region.
- Chile and Argentina show positive developments.



Latin America and the Caribbean remain a very expensive place to do business.

- Taxes, fees, and government policies impose a huge burden on airlines and stifle air travel by making it more costly than it would be otherwise.
- Unfortunately, aviation continues to be seen as a cash cow for many governments across the region, especially across the Caribbean.

IATA worked closely with the Caribbean Development Bank to develop a study on air transport's competitiveness and connectivity in the Caribbean and found that taxes and charges often represent more than 30% of the ticket price for flights within and to the Caribbean.

Governments often look to aviation for quick revenue generation, like Barbados earlier this year by introducing a new Airline Travel and Tourism Development fee of US\$70 for passengers flying outside of CARICOM and US\$35 for passengers flying within CARICOM.

- This means, a family of four visiting from Europe or North America now had to

factor in an additional US \$280 in ticket taxes.

- What governments sometimes forget is that passengers today have more choice than ever and can be anywhere in the world within 24 hours. So Caribbean states no longer just compete with other Caribbean islands but rather global beach destinations.

Here are some more examples across the region:

- Brazil's jet fuel pricing policy adds an extra \$255 million per year for airlines serving the country.
- A handling fee in the fuel pricing formula in Mexico adds an extra \$45 million per year to airline budgets.
- Peru has a tourism promotion tax on tickets (which seems to defeat the purpose of promoting tourism) and collects VAT on overflight charges and international tickets in contradiction of ICAO standards.
- And Colombia ranks near the bottom of a list of 138 countries in terms of the cost-competitiveness of its fees and taxes, according to the World Economic Forum's Global Competitiveness Report. This has implications for air travel. On average, taxes and fees add \$20 to a domestic one-way ticket and more than \$100 for international tickets.

There are many other examples, all illustrating the same problem: far too many governments in the region see aviation and air travel as a target for heavy taxes and fees. In doing so they are killing the golden goose.

Because the value of aviation is not in the tax receipts that can be squeezed from it, but rather in the economic growth and job creation it supports. Cut taxes and fees and the industry delivers more value.

There is proof within this region. The Chilean government recently announced the reduction of departure taxes, for domestic and international operations.

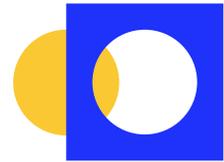
- Domestic departure taxes were reduced by 20% on September 1, another 10% in 2019, and an additional 10% by 2020.
- International departure taxes were reduced by USD\$4 on September 1, from USD\$30 to USD\$26.

- We expect a positive economic impact for Chile with an anticipated increase in domestic and international passengers.

I would also like to recognize the government of Argentina for its "La Revolucion de los aviones" initiative to open hundreds of new routes, deregulate domestic pricing and encourage the arrival of new entrants. These moves are very positive for Argentina, but more remains to be done on the cost side to further boost competitiveness.

Regulatory Harmonization

States need to catch up with Airlines



- Airlines have created multi-national business models.
- Regulation still primarily country-by-country.
- Mutual recognition, common standards in training, licensing, aircraft registration bring efficiency benefits
- Region falling out-of-step with global standards on commercial regulation.



Finally, I would like to address the issue of regulatory harmonization. Airlines in the region are at the forefront of creating multi-national business models. Consumers have benefited with access to bigger route networks and more connecting options.

However, the full scope of potential efficiencies is not being realized, because regulations remain nationally-based in areas like training, licensing and aircraft registration. This denies opportunities such as the ability to easily move aircraft and staff around an airline's network to match market requirements.

Therefore, governments across the region need to ensure regulatory oversight following the principles of smarter regulation.

- The goal of all regulation should be to achieve clearly defined, measurable policy objectives that can be adhered to in the least burdensome manner possible.
- And any regulatory framework benefits from a transparent and objective

consultative process between governments and industry.

Recently we have seen some positive steps. Brazil has liberalized its regulations on aircraft interchanges, making it easier to transfer aircraft belonging to the same parent company into the country.

- And in Central America, the six member states of the Central American Corporation for Air Navigation Services (Cocesna) unanimously passed legislation that standardizes the requirements for all aeronautical licenses—pilots, cabin attendants, technicians and so forth--so that a license in one state is valid across all Cocesna states.

But far more needs to be done. It is past time for a serious discussion among regulators and stakeholders to find ways to unlock additional value from the restructurings that have taken place through a regime of mutual recognition of common standards for training, licensing and registration of aircraft and crew.

There is another example of harmonization that I will only touch on briefly—and that is that this region is increasingly out-of-step with the rest of the world when it comes to commercial regulation.

- The lesson of airline deregulation is that it creates market opportunities and encourages new business models.
- Unfortunately, across Latin America, lawmakers and regulators are trying to turn back the clock to a regulated era by introducing restrictions in the name of passenger rights.
- These limit the ability of airlines to reach out to potential new markets. For example:
 - In Peru, in certain circumstances, a passenger flying domestically can endorse his ticket to another traveler.
 - In Colombia, airlines are required to offer full refunds on non-promotional fares if a passenger cancels the ticket up to 24 hours before the trip.
 - In Brazil, ANAC is working to harmonize rulemaking procedures with global best practices, but these efforts are being undermined by lawmakers and courts.

The examples I've cited raise the cost of travel for all, by limiting airlines' ability to differentiate themselves through individual customer service offerings. Passengers should have the freedom to choose an airline that corresponds with their desired fare level and service standards.

Latin America has all the necessary elements to become an aviation success story: competitive and efficient airlines, a growing middle class, favorable demographics and a geography that necessitates travel by air.

- However, with the exception of a few countries, the region's governments are not treating air carriers as partners who drive valuable social and economic development.

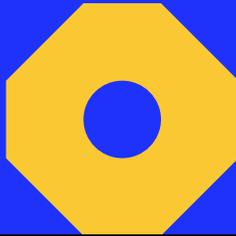
Thank you

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I would like to thank you for your time and I am ready to take your questions.